AT&T

Universal Service for Arizona should be defined as the availability and affordability of basic residential local exchange telephone service. Basic residential local exchange telephone services should include:

- A Voice Grade Line
- Touch-tone
- Access to Emergency 911 Service
- White Page Directory listing
- Access to directory assistance
- Access to operator services
- Access to Toll Providers
- Telephone Relay Services (for hearing impaired)

A policy of open local exchange competition, which the Arizona Corporation Commission recently adopted, will enhance the goal of universal service. There is every reason to believe that full and fair competition in the local exchange market will better enhance the goal of universal service than do the entrenched monopolies. In fact, vigorous competition in the local exchange will likely force all competitors – especially the incumbent, Local Exchange Carriers (LECs) – to become more efficient, thereby driving the costs of local service down and making such service more accessible to all consumers.

The same technological and entrepreneurial advances that have made local exchange competition a possibility also have underlined the need for a fundamental redefinition of "universal service" and what is needed to achieve it. While these advances have been made, they are being undermined by the existing system of subsidies, which have a significant negative impact on the development of competition. If LEC monopoly exchange rates are being subsidized by other services, it will be virtually impossible for any new firm to enter the market and compete while the incumbent firm charges prices that are being subsidized. Moreover, any excess subsidies provide LECs with resources that can be used to fend off potential new entrants. There are reasonable and achievable alternatives to the current subsidy mechanism ensuring that all consumers have access to these basic services.

AT&T proposed the preservation of universal service in a competitive environment by the creation of a new national universal service fund managed by a competitively neutral administrator to implement warranted subsidies. The funding would be explicit and subsidies would only be provided to eligible residential subscribers to help pay for basic, tone-signaling local service. The subsidies would be narrowly targeted to households that met specific, need-based eligibility criteria and to those households in certain high cost areas where raising the local rate to fully cover costs would be prohibitive. The explicit subsidy payment would go directly to the carrier serving the eligible customer.

The first step in the reform process is to remove the subsidies inherent in access by pricing access relative to an appropriate measure of cost and determining how the LEC's existing basic services are priced relative to the same measure of cost. If basic service residential rates are found to be priced below cost, then steps should be taken to ensure, over time, that basic rates cover the cost of service, thus eliminating any "built-in" subsidy that today is extended to all customers, irrespective of their ability to pay. Given that competition will spur cost reductions in an industry experiencing declining costs, Commissioners may indeed find that subsidies are not nearly as great as anticipated, and may be eliminated by small increases in local rates without causing undue hardship to those subscribers with the ability to pay.

AT&T (Continued)

Once the built-in subsidies are quantified by service category, Commissioners can determine how much the subsidies can be eliminated by adjusting rates, and what remaining subsidy would be required to obtain their universal service goals. Any remaining need for subsidized rates should be targeted to the residential subscribers or high cost areas meeting eligibility criteria. The goal of this targeted subsidy should be to guarantee that those who cannot afford to purchase telecommunications services in an open and competitive market are given the means to do so no matter where they reside or who the customer selects to provide their local service.

Ideally, a targeted subsidy program should be managed in the same manner as any social program. Under this system, the subsidies would be funded through general tax revenues and then distributed to needy individuals or residents in high cost areas through existing social services channels. If funding is to be provided from industry revenues however, the next best alternative would be to implement a separate, competitively neutral pool. AT&T proposes that funding should be obtained from surcharges on all retail, i.e., end-user customer bills of all providers of telecommunications services. The amount of the subsidy to be recovered by the surcharge should be offset by contributions from LEC unregulated services that have been traditionally contributed to lower local exchange rates (yellow pages).

To avoid the defects of the current interstate system, it is imperative that the mechanism put in place be fair and equitable, easy to administer, economically efficient, competitively neutral and must make subsidies available to all competitors on a fair and non-discriminatory basis.

A further consideration is the joint impact of both national and state universal service plans. The Arizona Commission adopted an Arizona Universal Service Fund (AUSF) several years ago, but has wisely chosen to use the fund only as a safety new to limit rate increases for one high cost LEC, not as a broad funding mechanism. The Arizona Commission's present work looking to update the AUSF to recognize potential competition is appropriate planning for the transition to a competitive market. However, the uncertainty regarding what national plan will be adopted makes the development of a state plan difficult and the possibility of revisions likely.

Arizona Telephone Company

Future Universal Service policy should incorporate the following:

1. The proper **definition** of Universal Service to be mandated must be flexible to encompass those services which now exist and those which will become widely available and broadly utilized by the public in the future. These services need to include for rural areas the medical link and distance learning facilities to provide more medical and educational opportunities in the non-urban areas of the country. The UTS definition should not be limited to basic voice services and should support necessary digitalization of our existing rural network infrastructure to accommodate the National Information Infrastructure.

2. The technology to provide these services in rural areas must be permitted to evolve since provision of the infrastructure for the future cannot be physically or economically provided on a short term basis. Wireless can accomplish much in rural areas but will not be a total replacement for hardwire because of bandwidth and other limitations and because of Arizona's terrain problems. Under the assumption that the end objective will be the provision of an all-broadband national network, it will make sense initially to continue digitalization of the existing network to utilize much of the existing paired copper cable. The implementation and expansion in Integrated Services Digital Network (ISDN) facilities is a prime example. This would permit the transmission on a digital basis of voice, data and video over the same existing copper line, ISDN and other innovative applications can be utilized initially to meet consumer expectations with less costly additions to existing cable plant, especially in the rural areas. It is one thing to pursue rewiring of the Phoenix Valley and Tucson metropolitan areas, but rewiring the rest of the State to serve relatively few residents / businesses in the rural areas is another matter.

3. There must be parity in the quality and quantity of service in the rural versus the urban areas.

4. The price of services must be reasonable and affordable in rural areas and such services must be supported by adequate and properly targeted funding to maintain the universality of such service.

5. Regulators must identify the "provider of last resort" or "essential carrier" for a given service area to ensure that users don't fall between the cracks of competitive providers. Only "providers of last resort" should receive UTS funding because they are the only providers of service to everyone within a given service area. Only regulators can provide the oversight and be the "referee" necessary to make these decisions.

6. Dramatically lower density in the rural areas, and the resulting higher costs to construct and maintain those facilities, require different UTS rules than the urban areas. One rule simply will not fit all areas because the rural markets differ so markedly from the urban markets.

7. Competition traditionally delays entry or avoids many rural areas since sales volumes are not attractive.

Arizona Telephone Company (Continued)

Appropriate UTS policy and funding therefore is essential to a State like Arizona and most other Western States because:

1. Arizona is large geographically but highly urbanized with the great majority of the populations living in the Phoenix and Tucson metropolitan areas. The small towns and rural areas of Arizona must not become "have-nots" in the future world of advanced information services.

2. Due to Arizona's population distribution, U.S. West serves in the magnitude of over 2 million access lines within Arizona, while 9 other Independent (Non-Bell) ECs serve about 140,000. The smaller ECs do not have the economy of scale or capacity to internally average their costs and therefore need UTS support flows to maintain reasonable and affordable rates within their non-metropolitan service areas.

3. Cable TV has not generally penetrated the rural areas within Arizona and therefore does not present an alternative for local service. Therefore, the existing ECs must be relied upon to provide tomorrow's advanced services within rural Arizona.

Call America

Over 60 years ago, Congress passed the Communications Act of 1934 which mandated that every American, regardless of where they live, receive basic telephone service at approximately the same rate. Conceptually, consumers who lived in rural America would pay the same rate for basic telephone service as individuals residing in urban America, regardless of disparities in the cost of supplying such service.

This concept of urban-rural equality, known as "universal service" was based on the demographics of our nation 60 years ago. The subsidy supporting universal service is funded primarily by the long distance industry, who contribute over a billion dollars annually. The National Exchange Carriers Association (NECA) administers the Federal program, collecting fees from long-distance carriers and distributing monthly checks to local exchange carriers. The underlying assumption is that customers care more about basic local rates and that the poor do not use long distance.

The federal system described above has been predicated on rates established by the Federal Communication Commission (FCC) and the States that requires implicit cost shifting by monopoly providers of telephone exchange service through both local rates and access charges to interexchange carriers. To win federal subsidies, local companies file studies showing that their spending per line is at least 15% above the national average. This encourages the LECs to spend freely, inflating the cost of providing local service in order to win subsidy revenue. Companies with fewer than 50,000 customers receive additional money, regardless of the cost of providing basic service.

As we consider how to implement local competition in Arizona, now is the appropriate time for a fresh look at the federal and state universal service system. The belief that a universal service system, designed in the 1930's, is relevant today is preposterous. A complete evaluation must be made of the universal service program, and all of the underlying assumptions on which it is made. I believe that the States, rather than the federal government, are best equipped to provide updated demographic information, reflecting a more realistic picture of the current distribution of customers. Additionally, a neutral third party must administer the system in the future.

The Arizona Corporation Commission should hold public hearings to determine the actual costs of providing local exchange services in each service area. Vertical service profits must not be excluded from this evaluation. Periodic reviews must be made by the Commission, on an ongoing basis to assure that costs assigned to service areas remain relevant and cost based.

The long distance industry supports the philosophy of the universal service and is willing to continue to support it in the future. It is essential, however, that this subsidy be assessed fairly to all telecommunications providers so that the burden is not unfairly assigned to one industry.

Vigorous competition, with its many benefits to the consumer, can only flourish in a free market environment in which entrepreneurs believe they can enter a line of business and make a profit. Since the current telephone subsidy scheme gives all benefits to the incumbent monopoly, the question arises; who would want to compete? Eliminating discrimination will encourage new competitors to enter the market place. With a level playing field, real competition can develop, resulting in lower prices and more options and services for the consumer.

Call America (Continued)

The subsidy awarded for local service must be made available on a non-discriminatory basis to all competitors awarded and controlled by the customer. Unless the subsidy is made available to all competitors, local competition will probably never develop in the rural areas of Arizona.

Resale is the most likely way that competition will first come to the rural and high cost areas of Arizona. This will not happen as resellers are not entitled to the same universal service support that their competitors, the LECs, receive for serving the same customer.

The universal service goal that is contained in existing law could be achieved by instituting a voucher system, insuring that everyone has the ability to receive telephone service at a reasonable rate. Under such a system, a household could use the voucher to pay for any local telephone service they desired, including cellular or satellite communications. Vouchers would be reclaimed for dollars by the local telephone companies selected by the consumer to provide service. The economic viability of companies benefiting from the current subsidy scheme, will be in jeopardy only if their customers seek a new provider. A voucher system recognized merit and choice, rather that a monopoly and an incumbent. Although a voucher system is still a subsidy, it is a much more benign subsidy than the anti-competitive one which currently exists.

I have briefly summarized only a few of the issues and concerns relating to universal service. The federal scheme, which is yet to be defined, may be supplemented by a State universal service program. Additionally, I would like to see the State of Arizona take a proactive role in assisting the federal government in finding common sense, pro-competitive solutions.

I recommend that this complicated task, of evaluating the actual cost of providing local service today, be delegated to the Arizona Corporations Commission and that a rule making procedure be established as soon as possible.

Cox Communications

Cox Communications' interest in the issue of Universal Service in the State of Arizona is derived from two sources. First, as a large telephone rate payer, Cox is interested in the fair and efficient operation of any Universal Service Fund. Second, Cox has an interest in the adoption of competitively neutral rules and obligations because it is a potential provider of competitive local exchange service.

Cox is committed to preserving every consumer's ability to access the public switched telephone network. This commitment is predicated on an equitable funding methodology to maintain access for low income individuals and residents of high cost areas. Universal Service should be limited to "lifeline" basic service to low income customers and high cost areas.

To accomplish the goal of Universal Service, a Universal Service Fund should be established that would provide subsidies to low income customers for "lifeline" service and to high cost areas for the extension of dial tone service. The primary functions of the Universal Service Fund would be to collect and administer funds contributed by all telecommunications carriers in proportion to their net transmission revenues. The fund should be designed as carrier-neutral and funds distributed based on the justified difference between the carriers cost of service and the carriers rates. Only basic local service for residential customers should receive Universal Service support.

The rules of the Universal Service Fund should be designed to decrease that size of the fund over time. In general, the goal of the rules should be to limit subsidies to those cases where service would be uneconomical, not to assure profitability to any carrier or group of carriers. Indeed, as new competitors begin providing universal service, they will reduce the necessary subsidy and, at the same time, force carriers with relatively high costs to increase their efficiency if they want to maintain market share and make a profit. Over time, this process will drive the costs of subsidized services down towards the prices charged in the marketplace, potentially eliminating any subsidies.

Gila River Telecommunications, Inc.

Gila River Telecommunications, Inc. (GRTI) submits the following brief policy statement with respect to Universal Service issues. This statement is submitted in response to the Arizona Governor's Office of Telecommunication Policy (Governor's Office) examination of, and survey about, **Universal Service**. This examination is very timely in that the telecommunications industry is currently undergoing a major transformation. This change will likely result in reliance more on competition to shape this industry than regulation. Moreover, this transformation has thus far proceeded without adequate consideration of the complex and natural tension it presents with respect to maintaining and strengthening Universal Service into the future. This examination is exceedingly important for the State of Arizona because of its extreme differences in service provision challenges between urban centers and vast sparsely populated areas.

1. THE ACHIEVEMENTS OF THE SMALL, LOCALLY OWNED & OPERATED TELEPHONE COMPANIES ARE EXCELLENT EXAMPLES OF SUCCESSFUL **UNIVERSAL SERVICE** POLICY.

The nearly one thousand small and rural telcos exist primarily because a free-market competitive industry of the first half of this century failed to bring quality telecommunications services to many parts of this nation, characterized by high per-subscriber costs and relatively low volumes of traffic. Only after small, locally-owned and operated companies were formed, most with the aid of loans administered by the federal government and all with the aid of joint industry cost recovery plans that make rates viable, did **Universal Service** expand to fill the void left by the large carrier industry.

GRTI is proud of its own experience. GRTI purchased from US West, facilities within the Gila River Indian Community covering a service area of approximately 600 square miles. At the time of acquisition, service was provided to approximately 1,100 subscriber lines. Since that time, GRTI has added some $6 million in cable and wire facilities and $2 million in digital switching. This equipment replaced poor condition buried cable and step-by-step switching equipment. GRTI has deployed fiber optic cable for trunking between offices.

GRTI has extended service without any need for aid to construction charges. Local customers now enjoy single party service, equal access and custom calling features. As such, subscribership has nearly doubled since GRTI acquired the property from the original 1,100 lines to approximately 2,300 lines. The state of small telco quality has been summarized in various forms. For example, the Rural Utilities Service (formerly the Rural Electrification Administration) publishes statistics each year for its large number of small telco borrowers.[1] The National Exchange Carrier Association (NECA) has also published summaries of surveys it has conducted for its member telcos showing the state of network infrastructure and services achieved by the generally smaller telcos.[2] Finally, in recent years there has been a large number of sales of rural exchanges from the larger carriers to smaller ones. State commissions have nearly unanimously promoted these sales because they agreed that the smaller carriers were more likely to provide higher quality of service.[3]

For the past nearly fifty years, the smaller telcos have developed local networks that provide up-to date services in otherwise challenging service territories. This activity resulted in local networks of high quality in those areas served by the smaller locally owned companies. The Governor's Office should study this activity and take note of its success and relevance to the needs of the State of Arizona.

2. **UNIVERSAL SERVICE** ENCOMPASSES A LARGE NUMBER OF RELATED ISSUES.

A definition of Universal Service, and the policies that support it, must recognize an exhaustive list of principles. These principles involve technology, social and economic issues. To assist the Governor's Office, GRTI offers below, guiding principles which should be considered in any Universal Service policy and plan.

Universal Service includes:

a. the availability of equivalent "state of the industry" facilities and services in all areas to all users. Modern telecommunications is so important to everyone's daily business and personal lives that it is incumbent that any Universal Service policy embrace full participation of the network by all citizens;
b. pricing plans that allow inexpensive basic monthly charges that lead to
    i. affordable rates for low income subscribers,
    ii. reasonably comparable rates for the same services,
    iii. all leading to high subscribership penetration levels;
c. policy and industry commitments to extend service to challenging service areas; and
d. policies that provide sufficient incentive to invest in areas that otherwise would be risky telecommunications ventures.

Policy makers could address the first principle in two ways: either by establishing minimum standards for service or the maximum levels of facilities and services beyond which Universal Service policies are not needed. The precise determination of the exact level of services and facilities that lies between these extremes and best balances the economic considerations is difficult. Policy makers should continue with the complex, interactive process involving users, regulators, legislators, telcos and technology experts.

Service standards including when and where to introduce new services or facilities are a complicated matter. Debates over the exact social and economic balance between consumers' expectations and needs, demand, and cost/price results are very difficult to resolve. The proper balance must be dynamic and determined according to local needs.

Small telcos like GRTI stand ready to provide useful, modern, quality telecommunications to our subscribers. We want programs that allow viable cost recovery as backing to this commitment to continue. At the same time, however, we do not want to promote centrally-planned rigid requirements for imprudent investment or services that may outstrip reasonable demand or available revenues.

3. MULTIPLE PROVIDER COMPETITION MAY NOT PROVIDE BENEFITS IN SOME APPLICATIONS.

In the examination of the effect of more competition on Universal Service issues, the Governor's Office should fully recognize that competition, in and of itself, will not serve these objectives. Competition will cause large price de-averaging of services. Targeted, free-entry competitors will confine service to only the lowest cost, highest volume areas forcing current providers to de-average rates to reflect very small area characteristics. This will expose the real cost and price differences between different areas.

Many policy makers do not realize the disparity in pricing that may be unleashed. Data based on averaged cost already indicates that differences vary by more than a factor of 15 to 1 from one location to another. After de-averaging, some estimates project the range to be more like 50 to 1. This de-averaging presents a new challenge to policy makers.

Secondly, policy makers must find ways to balance financial and service responsibilities among different providers to prevent new entrants from only "cream-skimming" the marketplace. Without effective anti-cream skimming provisions, many customers and areas are likely to be harmed by competition.

The marketplace rewards service to only the high volume customers. Without complex requirements and controls, the competitive marketplace will not guarantee the same level of quality to all users. While the industry has historically achieved minimum standards, the new industry will not without new intervention. Furthermore, the competitive marketplace, without further provisions, will make investment in high-cost, low-volume traffic areas highly risky, making commitments to higher quality facilities and advanced information services that users have grown to expect, very difficult. One segment, namely the original carriers, cannot be expected to achieve minimum standards while other segments are free to offer service at prices and quality at will.

With these in mind, policy makers should carefully consider where, and under what conditions, competition should be encouraged and controlled and where it may yet be undesirable. The proper solution to the natural conflict between competition and the preservation of Universal Service will necessarily be more complex than current policies because the solution will need to be applied to an increasing number of very different providers with very different motives.

1. Each year under Information Publication 300-4
2. See NECA summaries entitled "Building the Telecommunications Infrastructure in Rural America" (Nov. 1993) and "Modernizing Rural America—Investments in New Technologies by Small Telephone Companies" (June 1992).
3. These proceedings are all documented in a series of Federal Communications Commission rulings over "study area" changes.

MCI

Basic Universal service for high-cost geographic areas must be defined carefully so that the amount of the necessary subsidy to be funded by telecommunications service providers accurately supports only the provision of basic universal service in high-cost geographic areas for residential customers. There should be no subsidy for business services. Support for business services is more in the nature of economic development rather than support for basic universal service for all households. Basic universal service should be defined as single-line residential access to the first point of switching in a local exchange network, unlimited usage within an exchange area, tough-tone service, white pages listings, and access to 911 service, operator services, directory assistance, and telecommunications relay services.

The amount of support required for basic universal service is calculated as the difference between the economic cost or, what economists call the "total service long run incremental cost" of providing basic universal service, determined separately for relevant geographic support areas using the Benchmark Cost Model that MCI has supported in a recent filing at the Federal Communications Commission and the revenues generated by rates charged. The Benchmark Cost Model was also supported by U S West, NYNEX, and Sprint. The relevant geographic support areas should be high-cost census block groups. Once the amount of the necessary support is determined, revenues for the support of basic universal service must be generated in a "competitively-neutral" manner, through a percentage assessment on the revenues of each telecommunications service provider, net of payments made to other carriers for services that were already subject to the assessment.

Universal service benefits must be distributed in a "provider-neutral" manner to the provider of basic universal service chosen by the residential customer, based on the per-line subsidy requirement identified for each geographic support area. Subsidies must be portable between providers and should be disclosed on customers' bills. Disclosure of this support on customers' bills will allow customers and providers to ensure proper support is being paid and received.

Historically, the universal service subsidy has been funded indirectly, as part of a complex system of direct charges on some customers and above-cost charges for certain local telephone company services (such as access charges and local business rates). These internal subsidies are not devoted solely to universal service goals; rather, they are used to guarantee that the local exchange companies recover their full revenue requirement. The funding of basic universal service be "de-linked" from the incumbent LECs' revenue requirement as soon as possible.

MCI supports some exemptions for small local exchange companies operating in rural areas that may be appropriate for several years initially. However, MCI believes that commissions should review any exemptions authorized within three years to determine whether the exemptions should be modified or eliminated. MCI also believes that commissions must review all universal support mechanisms periodically, at least every three years, to determine if the support mechanisms continue to be appropriate. Programs based upon need, such as lifeline programs and Link-Up America programs, should continue and not be affected by universal support mechanisms which may be necessary for the high-cost geographic support areas discussed above.

SPRINT

Competition and Universal Service. Local service competition enhances universal service. Competition for access services and competition in the local service market may well stimulate the development of new products, stimulate demand and produce higher revenues and earnings for the incumbent local telephone company just as competition in the interLATA long distance market did for AT&T.

Embedded Subsidies Should be Transitioned Away. In order to encourage efficient competition in all market segments, it is important to eliminate uneconomic/non-competitive subsidies embedded in telecommunications pricing structures over a reasonable transition period (e.g., reduce access charges that are prices substantially above costs and raise those rates that are substantially below cost.)

Explicit Subsidies. Subsidies to preserve universal service should have the following characteristics:

- **Explicitly Identified**. If subsidies are required, they should be explicitly identified rather than embedded in various prices;

- **Needs Based Targeting**. If subsidies are required, they should be needs based either on a showing of low income by consumers or based on service to high cost areas;

- **Broad-Based Support**. If subsidies are required, all telecommunications service providers should contribute to such subsidies in a competitively neutral manner based on their telecommunications revenues net of payments to intermediaries;

- **Neutral Administration**. Collection and distribution of subsidies should be done by a neutral administrator;

- **Only Basic Residential Telephone Service Subsidized**. Only basic residential telephone services should be subsidized, limited to (1) single party local service, (2) access to touch tone dialing, (3) access to carriers of choice, (4) access to operator services and, (5) access to emergency (911) services.

- **Competitive Access to Subsidies**. If subsidies are required, then all competitive local telephone service providers should have the opportunity to receive such subsidies when selected by an eligible customer.

Teleport Communications Group (TCG)

Teleport Communications Group (TCG) is the nation's oldest and largest provider of competitive local telecommunications services, with local networks in 21 cities nationwide. Since establishing the competitive local telecommunications industry in 1984, TCG has striven to provide all customers with cost-effective alternatives to the incumbent monopolists. Our initial lines of business were limited by statute or by regulation to dedicated access service. Today, TCG has obtained authority to provide the full range of local exchange telecommunications service in nine states, with applications pending in three others, including Arizona.

TCG has been an active participant in the competition proceedings in Arizona, including the recently concluded universal service workshops initiated by the Arizona Corporation Commission. During those workshops, representatives from a wide range of stakeholders in the future of Arizona's telecommunications industry developed an approach to universal service consistent with the local competition rules approved by the ACC this past summer. The workshop participants recently submitted their proposal to the ACC for its review and we expect the ACC to issue its universal service rules shortly. We welcome this opportunity to share our perspective on this important issue with the Governor's Office of Telecommunications Policy.

No issue has so permeated the reform of the telecommunications industry as universal service has. Whenever policymakers have raised the possibility of introducing competition to previously monopolized segments of the industry, the monopolies have invariably objected to the policy on "universal service grounds." That is, the incumbent local exchange carriers object to any reform that would threaten their monopolies and they raise their objections behind a facade of false concern about the dreadful impact of such reforms on universal service. Universal service concerns were raised when the market for terminal equipment was opened to competition, and again when competition was introduced into the long distance market. During the past decade, as technological change and consumer demand have increased the pressure on policymakers to open the local telecommunications market to competition, incumbent local exchange carriers have once again resorted to "the universal service problem" as a shield to protect their monopolies.

Recent actions by state regulatory commissions, however, indicate that the incumbent local exchange carriers ("ILECS") have cried wolf perhaps once too often. In its draft proposed rule establishing a new universal service program, the California Public Utilities Commission (CPUC) stated that it did:

> ...not agree with Pacific's (Pacific Telesis) position that local exchange competition should be postponed before final universal service rules are in place... Competition will take time. Potential competitors will have to establish their local networks, or enter into agreements with the LECs for access to the local exchange network, both of which are complex issues to resolve. In addition, no studies have been completed that confirm that the LECs' residential basic exchange services are being subsidized by other LED services. By the time competitors are able to make market inroads, and cost studies are completed, redesigned universal service rules will have been adopted.(page 34)

Three points from the above comments are especially noteworthy. First, no evidence yet exists proving that there is a "universal service problem." That is, incumbent LECs have offered nothing more than unsubstantiated assertions that basic local telephone service is subsidized. Second, even if such evidence were produced, competition's limited inroads will pose little threat to the ability of the incumbent local exchange carriers to maintain affordable telephone service throughout their service territories. Finally, the relatively slow development of competition will provide ample time to implement a new, competitively neutral approach to universal service long before the incumbent LECs feel any pressure on their alleged universal service support stream.

These comments by the California PUC were strongly reinforced in a more recent decision by the Washington Utilities and Transportation Commission (WUTC). The WUTC found that:

> ...it will be some time before new entrants have any genuine effect on the revenues of the incumbent LECs... Previous experiences with telecommunications competition have shown that market shares change slowly even when changing providers is relatively easy for consumers, as is the case in the long distance services market. Moreover, it will be difficult for customers to change local exchange providers in the near future. Most will not even have the option, because networks take time to construct. (page 37)

This ruling is not only consistent with the views expressed by the California PUC, but it is also consistent with rulings made by other state commissions. As TCG has grown from a competitive access provider to a full service competitive local exchange carrier, the conclusion of policymakers has been the same: local telecommunications competition does not threaten universal service. Indeed, with proper technical and financial interconnection arrangements, competition will advance the nation's goal of universal service.

As noted earlier, the existence of cross-subsidy support for basic residential service has yet to be proven. If such cross subsidies do exist, however, they, like all cross subsidies, would be unsustainable across competitive markets. To the extent that support is necessary to maintain universal service, therefore, changing market conditions mandate that such support be provided in a competitively neutral manner. To that end, in 1993 TCG proposed Universal Service Assurance, a plan to guarantee that all customer that need support will continue to receive it as competition develops. The fundamental principles of Universal Service Assurance are (1) an explicit fund, independently administered; (2) fair contributions from all providers of two-way telecommunications services; and (3) equal access to the fund by all providers of basic service.

Universal Service Assurance (USA) would replace the current complex system of implicit and explicit intercarrier and intracarrier subsidies with a single, explicit, carrier-neutral support program for individual consumers funded by all telecommunications common carriers. "Equal Access" by all telecommunications carriers to the support program links competition to universal service. By allowing consumers to select any local carrier and still obtain whatever subsidy to which they are entitled, USA makes all consumers "good" customers and encourages many local exchange carriers to compete to attract all customers. USA eliminates marketplace distortions resulting from intercarrier and intracarrier cross subsidies, and assures a flow of subsidies adequate to support basic service. Incumbent carriers that face competition in selected market segments will still be able to serve any subsidized consumer at no more than existing rates and without loss of revenues from those customers. They will be free to lower their prices in competitive markets without endangering support for basic telephone service, and thus will bolster their position in those markets. The fundamental concept of a provider-neutral, carrier-funded universal service fund to which all telecommunications common carriers contribute and from which any carrier providing "universal service" may withdraw has been endorsed with minor variations by many other parties in many forums, including the state legislatures of Vermont and Connecticut, and the National Association of Regulatory Utility Commissioners.

Before any such universal service reform is necessary, however, local telecommunications competition must be legalized and all technical and financial barriers to competition must be removed. Most notable, customers must be able to retain their telephone numbers when they choose another provider for local service, and the financial compensation arrangements between carriers for the exchange of traffic must be economically viable. Only after the removal of such barriers will competitors have the opportunity to bring choice and innovation to the now-captive customers of the monopoly local exchange carriers. Should policy-makers then determine that a support mechanism is necessary to maintain universal service, Universal Service Assurance will remain the proper framework for doing so in a manner consistent with competition.

U S West

Definition: U S West defines universal service as "one-party, voice-grade telephone service with touch-tone capability, equal access to long distance carriers, basic end-user equipment, telephone relay services for hearing- or speech-impaired customers, and dialing access to emergency services and directory assistance."

Support Mechanisms: Any support mechanisms required in assuring universal service provision should be explicitly identified, specifically targeted and funded in a competitively neutral manner.

Low Income / Social Programs: US West supports the continuation of these programs, with all service providers participating in funding them.

High Cost Funds: High cost support should be targeted to the smallest feasible geographic area. US West believes the most reasonable approach to defining the geographic area is the Census Block Group approach, as contained in our comments to the FCC Notice of Inquiry in Universal Service CC Docket No. 80-286. The support would apply, based on the cost of serving a high cost area, regardless of the provider. Any high cost fund adopted should:

- use Census Block Groups as base geographical units;
- ensure uniform methodology in identifying high cost areas;
- provide incentives to ensure efficient service to high cost areas;
- be neutrally applied to any provider of local service.

US West believes any authorized provider who stands ready to provide service to everyone within a Census Block Group should be eligible to receive high cost support based on the number of customers actually served.

Universal Access: US West supports the development of public policies which encourage competing providers to offer advanced communications services to urban and rural communities on an economically-sustainable basis. This may work in concert with a broadening of the universal service definition over time.

MCI, NYNEX, Sprint and U S West

Benchmark Cost Model for Universal Service Subsidies

Executive Summary

On July 13, 1995, the Federal Communications Commission (FCC) issued a Notice of Proposed Rulemaking (NPRM) "…seeking comments on proposals and policy changes to improve…assistance mechanisms intended to provide funds necessary to promote universally available service at reasonable rates." The FCC identified four "primary principles" which should be considered in evaluating any proposals for addressing universal service. These principles provide that a plan should:

1) Be properly targeted so that support is given only to those service providers or users who need assistance to maintain local service.
2) Promote efficient investment and operation.
3) Not impose excessive subsidy costs upon interstate carriers and rate payers.
4) Not impose barriers to competitive entry into local telecommunications.

Elsewhere in the NPRM, the FCC states:

> "We tentatively conclude that Census Block Group is an appropriately-sized geographic area for disaggregating the costs of providing local service… We believe a proposal to use proxy factors to determine distribution of the Fund should receive serious consideration…"

In order that parties commenting in this proceeding may have a common source of data which utilized both the concept of the Census Block Groups (CBGs)[1] and proxy costing, MCI, NYNEX, Sprint, and US West (Joint Sponsors) have worked together to develop a Benchmark Costing Model (BCM). This model will produce "benchmark" costs for the provision of basic telephone service[2] in each CBG within a state. The purpose of this study is to identify those CBGs in which the cost of providing basic telephone service is so high that some form of explicit high-cost support may be necessary as part of a universal service solution. The BCM is intended to provide the Commission, Joint Board, and other interested parties with information that can be used to evaluate the multiple proposals for the use of proxy methods set forth in the NPRM, including assessing the application of the proxy methodology to large companies only.

In developing the BCM, the Joint Sponsors have further developed the previously-submitted proxy models which accounted for density and distance from the nearest central office as factors affecting the cost of service. The Joint Sponsors have also attempted to respond to the FCC's desire to see additional variables which could affect the cost of providing service, such as terrain, slope, surface characteristics, and climate included in the analysis.

The BCM presents monthly cost results using two alternative factors for determining expenses and overhead loadings associated with basic local service. One set of factors is based on historical accounting data, while the second is based on an estimate of costs and overheads using the methodology contained in the MCI/Hatfield study.

In this filing, the Joint Sponsors are presenting a detailed description of the BCM model and the results of this model for six (6) states on which they have completed their analyses (CA, CO, OH, PA, TN, and TX). The Joint Sponsors will not present in this filing any conclusions or policy recommendations which we may draw, individually or collectively from the model results. Each party will be filing its own comments, in which it will state its view on which actions the Joint Board and the FCC should take in addressing the preservation of universal service. In some areas, the Joint Sponsors may agree while in other areas they may disagree on what this data suggests the Joint Board and FCC should do. The Joint Sponsors will, however, make their analysis and policy recommendations from a common set of data.

MCI, NYNEX, Sprint and U S West (Continued)

It is important to understand what the BCM is, and what it is not:

1) The purpose of the BCM is to identify areas where cost of service can reasonable be expected to be so high as to require explicit high cost support for the preservation of universal service.
2) The BCM produces a benchmark cost range for a defined set of basic residential telephone services assuming efficient engineering and design criteria and deployment of current state-of-the-art loop and switching technology, using the current national local exchange network topology.
3) The BCM does not define the actual cost of any telephone company, nor the embedded cost that a company might experience in providing telephone service today. Rather, the BCM provides a benchmark measurement of the relative costs of serving customers residing in given areas, i.e., the CBGs.
4) The BCM included only residential lines in the analysis, because business line source data was not readily available. However, because the primary purpose of the study is to identify high cost CBGs, the impact of excluding business lines from the calculation of the benchmark cost in those CBGs is de minimus.

The Joint Sponsors intend to make copies of the copyrighted model available for use by other parties. By making the model publicly available, the Joint Sponsors hope that the Commission, Joint Board and other interested parties will be able to obtain facts, data, and policy recommendations which will assist in the timely resolution of the important issues relating to universal service.

Summary Model Results

The model results summarized below show the annual benchmark cost and the aggregate support at various illustrative price points, and assuming two different annual cost factor assumptions.

Annual benchmark cost: The actual benchmark cost for each CBG in a particular state is multiplied by the number of households in each CBG. This monthly total benchmark cost for each CBG is multiplied by 12 to yield the annual benchmark cost for each CBG; all CBG benchmark costs in a state are summed to derive the statewide annual benchmark cost.

Aggregate support: The actual benchmark cost for each CBG is compared to illustrative price points of $20, $30, and $40. The difference between the benchmark costs for each CBG that exceeds the illustrative price points and the illustrative price points themselves is multiplied by the number of households in the CBG, and annualized. The result is the aggregate support in excess of the price point(s).

Annual Cost Factors: Annual Cost Factor #1 (31.6765%) is based on historical accounting data and total expense levels of the Tier 1 LECs utilizing 1994 ARMIS Form 43-01. Annual Cost Factor #2 (22.97%) is based on the Hatfield/MCI study approach and reflects limited expense categories and amounts.

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1. A CBG is a geographic unit defined by the Bureau of the Census which contains approximately 400 households.
2. Basic telephone service is defined as voice grade access to the public switched network with the ability to place and receive calls, residential one party service, touch tone, a white pages directory listing (costs not included), and access to directory assistance, operator service, and emergency services, e.g., 911/E911.
3. The Joint Sponsors grant to all parties the right to use the BCM and its results. No right is granted to license or sell the BCM, or any portion thereof, or to reverse engineer or decompile the BCM, or any portion thereof. In addition, except for inputs intended to be modified by the user, no right is granted to modify the BCM, or any portion thereof.

SUMMARY MODEL RESULTS

	Annual Cost Factor #1	Annual Cost Factor #2
Six States - Combined		
Annual Benchmark cost	$7,231,627,780	$5,243,966,033
Aggregate support		
at $20	$1,930,018,650	$872,141,401
at $30	$1,066,022,818	$467,862,138
at $40	$ 681,695,973	$293,769,835
Average Monthly cost	**$21.37**	**$15.50**
California		
Annual Benchmark cost	$2,252,171,780	$1,633,147,153
Aggregate support		
at $20	$399,861,956	$175,906,571
at $30	$219,697,750	$110,424,413
at $40	$158,057,533	$ 79,592,793
Average Monthly cost	$18.05	$13.09
Colorado		
Annual Benchmark cost	$397,796,384	$288,459,360
Aggregate support		
at $20	$145,584,796	$ 82,500,786
at $30	$107,384,348	$ 61,352,402
at $40	$ 86,837,762	$ 48,949,217
Average Monthly cost	$25.80	$18.71
Ohio		
Annual Benchmark cost	$1,049,913,978	$761,338,029
Aggregate support		
at $20	$263,233,990	$101,837,376
at $30	$115,005,171	$ 28,342,180
at $40	$ 45,063,834	$ 4,825,394
Average Monthly cost	$21.40	$15.52
Pennsylvania		
Annual Benchmark cost	$1,091,050,041	$791,167,567
Aggregate support		
at $20	$268,676,086	$101,534,865
at $30	$111,900,283	$ 27,767,054
at $40	$ 43,619,805	$ 8,154,254
Average Monthly cost	$20.24	$14.67
Tennessee		
Annual Benchmark cost	$606,503,620	$439,802,003
Aggregate support		
at $20	$210,868,030	$ 89,856,583
at $30	$104,685,235	$ 31,546,029
at $40	$ 48,862,492	$ 9,385,469
Average Monthly cost	$27.27	$19.77
Texas		
Annual Benchmark cost	$1,834,191,977	$1,330,051,921
Aggregate support		
at $20	$614,793,792	$320,505,220
at $30	$407,350,031	$208,430,060
at $40	$299,254,547	$142,862,708
Average Monthly cost	$25.14	$18.23

Arizona Cable Television Association (ACTA)

Local service competition enhances universal service. Competition for access services and competition in the local service market may well stimulate the development of new products, stimulate demand and produce higher revenues and earnings for the incumbent local telephone company just as competition in the interLATA long distance market did for AT&T

In order to encourage efficient competition in all market segments, it is important to eliminate uneconomic/non-competitive subsidies embedded in telecommunications pricing structures over a reasonable transition period (e.g., reduce access charges that are prices substantially above costs and raise those rates that are substantially below cost.)

Subsidies to preserve universal service should have the following characteristics:

- If subsidies are required, they should be explicitly identified rather than embedded in various prices;
- Needs based either on a showing of low income by consumers or based on service to high cost areas;
- All telecommunications service providers should contribute to such subsidies in a competitively neutral manner based on their telecommunications revenues net of payments to intermediaries;
- Collection and distribution of subsidies should be done by a neutral administrator;
- Only basic residential telephone services should be subsidized, limited to (1) single party local service, (2) access to touch tone dialing, (3) access to carriers of choice, (4) access to operator services and, (5) access to emergency (911) services.
- All competitive local telephone service providers should have the opportunity to receive such subsidies when selected by an eligible customer.

National Cable Television Association (NCTA)

ISSUE: What measures should be taken to support the universal availability of basic local phone service in a competitive telecommunications environment, and what providers should be eligible to deliver universal services?

NCTA Position: All competitors in the local telecommunications market should pay their share, to the extent necessary, of the cost of ensuring that basic telephone service is available to all Americans. Universal service subsidy funds should be made available to any provider of local telecommunications service that is willing to deliver universal service.

Background: Basic telephone service is an essential service, and subsidies may be necessary to ensure that it remains affordable to low income and rural subscribers. Regulators established a "universal service fund" in the aftermath of AT&T's divestiture in order to ensure that the support of affordable phone service was equitably distributed among all long distance companies. A similar model has been proposed for a competitive local telephone marketplace.

Arguments:

- Local competition will promote universal service policies by driving down prices and affording consumers greater choice among providers.

- In a competitive marketplace, cable companies and others who become providers of telecommunications services have a corresponding responsibility to contribute to the maintenance of universal service. The cable industry understands and accepts this responsibility.

- All providers that are willing to deliver universal service should have access to the subsidy fund to which they contribute.

Recommended Action:

Telecommunications legislation should:

- Require that competitors in the local telecommunications market, to the extent necessary, pay a fair share of the cost of universal service;

- Make universal service subsidy funds available to any provider that is willing to deliver universal service;

- Define universal service as basic touch tone service, and permit later redefinition if it is made necessary by the market-based adoption of additional services.

- Require that the amount necessary to support universal service be carefully calculated to avoid imposing unnecessary burdens on consumers and jeopardizing the growth of competition.

National Rural Telecom Association (NRTA)

Universal Service

Universal Service is a bedrock principle of federal and state telecommunications policy. It recognized that all Americans need access to telephone services on an advancing network. It also embodies the economic theory of "external benefits." This theory rests on the understanding that access to a nationwide modern telecommunications network and service has an increased value of all subscribers with each new subscriber or user. Since the external benefits exceed what each individual would pay for his own benefit, it is sound public policy to provide access that will cause as many subscribers as possible to connect to and use the public switched network.

The Clinton Administration, Congress, many states and many regulators favor a universally available National Information Infrastructure. Participation in the national and global economies will require universal access to an information-rich telecommunications infrastructure and services.

The universal service policy is of particular importance in rural areas where low population density and fewer businesses and lower traffic volume result in higher unit costs. Stand-alone rates for some rural service could increase by up to $100 a month or more over current rates. Rural Utilities Service (formerly REA) and Rural Telephone Bank loan programs, together with various internal averaging mechanisms and explicit state and federal cost recovery programs have made possible affordable rates and up-to-date network capabilities in high cost areas. Spreading above average costs over the entire network means that customers in low cost areas pay a tiny increment over the stand-alone costs to save high cost area customers tens or hundreds of dollars per month in local rates. This policy is fair because *all users* benefit from the nationwide communication and information infrastructure. Rates for interstate and state long distance services that are averaged nationally and statewide have also supported national unity and economic growth.

High cost rural areas can benefit from using advancing telecommunications technology to provide education, health, social services and economic development opportunities to isolated, often economically disadvantaged rural communities. The U.S. communications network leads the world and offers virtually all locations in our nation affordable and evolving facilities and services. It is RUS-RTB financing, the universal service policy and various cost sharing mechanisms that have made this rich national resource a reality – not the "marketplace."

The trend towards relying on competition rather than the traditional regulated single source model is placing our nationwide, affordable, advancing infrastructure and service in jeopardy. Cost sharing becomes increasingly difficult when the below cost and average cost areas that help sustain affordable service in the high cost areas served by the traditional universal obligated to provide or support universal service.

<u>National Rural Telecom Association (NRTA) (Continued)</u>

Congress is currently considering legislation which proposes to update the nation's universal service and competitive policies. Proposals so far have agreed that *rural and urban rates and services must be reasonably comparable*. They look towards requiring more telecommunications providers to share the costs of high cost service. In this way, all end users will help support the nation's valuable public switched telecommunications infrastructure and the support mechanism will not cause uneconomic entry. However, some extreme economic theorists argue that the competitive marketplace should govern the availability and price of service in high costs areas. They ignore the lessons of the past and – that the competitive marketplace neglects rural areas and causes an increasing rural-urban communications and information gap. Others argue that <u>many</u> providers should be supported, even if it leads to artificial "competition" between two or more propped-up carriers in a rural market that cannot support one stand-alone, marketplace driven network.

The FCC and a Federal-State Joint Board are looking at ways to revamp some nationwide universal service programs. Unfortunately, their apparent goal is to limit and reduce high cost sharing mechanisms. With the information epoch underway, it is harsh and mistaken anti-rural public policy to stifle rural infrastructure and service advances.

Instead, Congress should reaffirm and update the nation's universal service commitment to all consumers, businesses and communities. It should direct a Federal-State Joint Board to develop efficient, adequate and sustainable mechanisms to enable a carrier with universal service and carrier of last resort obligations to preserve and promote rural participation in the nationwide, affordable public telecommunications infrastructure.

National Telephone Cooperative Association (NTCA)

Universal Service means the availability of modern telecommunications services to all portions of the country at reasonable rates. Universal Service has been virtually achieved in the areas served by small and rural companies, and to a somewhat lesser degree in the areas of the larger companies. This success has been achieved as a result of the fortuitous mixture of the following elements:

- An efficient and effective federal loan program which made capital and expertise available to persons willing to provide service in areas not attractive to the large carriers.
- Jurisdictional cost allocation formulas which ensured that rural companies received an adequate share of the toll revenues generated by their subscribers.
- Dedication and commitment of the owners and managers of rural telephone companies to their communities and their skill in meeting the challenges of low density and general lack of large, high-volume customers.
- In the case of the large companies, the use of broad averaging of costs and prices to maintain reasonable rates in high cost areas.

This success has been achieved in an environment where in which only a single carrier provided service. Generally, the right to serve an area, or the use of government loan funds, obligated the carrier to serve all applicants without discrimination.

Now, the environment is changing rapidly and new entities are receiving authorization to provide competing services in the areas of their choosing. This change has been heartily endorsed by the federal and many state governments on the assumption that competition will produce net consumer benefits through greater efficiency. While this assumption is based on experience in other parts of the economy, and even of the telecommunications industry, it remains to be seen whether the residential and small business customers located in low density, high cost areas will continue to receive service under the conditions being advocated today.

The closest analogy may be the transportation field. When long haul trucks began competing with railroads, the government tried to manage competition by complex rules, which ultimately contributed significantly to the near demise of the railroads. When deregulation came to the airline industry, the unequivocal result was that service declined substantially for many rural areas. Economists argue that this is the correct result, but if the same purely market dictated result is in store for rural telephone users, it is incumbent upon the government to so advise the public so that it can react accordingly.

The central issue is, of course, how one entity can afford to continue serving both high and low density and high and low volume customers, while competing with a multitude of others who have no inclination to serve any customers except the high density and high volume users? The few attempts to respond to this dilemma are impractical and unrealistic. One position is that faced with competition, the incumbents will become more efficient and find ways to reduce the cost of serving low volume customers in low density areas, such as use of wireless technologies. Another is that competitors will come to rural areas as soon as they are provided with the "subsidies" that allow the incumbents to maintain their prices below the costs of a new entrant.

National Telephone Cooperative Association (NTCA) (Continued)

The first argument ignores the fact rural telephone companies necessarily use the most efficient technologies available, including wireless loops where appropriate, but the vast distances and other obstacles impose an unavoidable additional cost burden. No proponent of this theory has made a realistic showing that it could provide equivalent service more efficiently. The second argument is also made repeatedly, but without documentation or explanation. The simple fact is that none of the new competitors are clamoring to serve the non urban areas of any state, much less Arizona where densities are orders of magnitude lower than in the cities, whether or not there is a "subsidy" available.

Consider the claim that rural telephone companies are subsidized. This issue generally arises in the context of the jurisdictional cost allocation formulas prescribed by the Federal Communications Commission. These rules merely prescribe what proportion of a telephone company's total cost (investment and expense) may be recovered in charges for interstate use of a plant that is used for both inter and intrastate services. These rules are only of significance to a rate regulated entity. All other businesses make their own decisions as to how to recover the common costs of providing multiple services, but government regulators make this business decision for telephone companies.

The FCC rules prescribe a higher interstate proportion of cost for small telephone companies, and those with above average cost of service with the result that these companies have a lower proportion of their cost to recover through intrastate charges, especially local service. This is no welfare program, it is merely a cost recovery plan with no right to recover more than 100% of cost. In the absence of these cost allocation rules, local service rates in rural areas would be excessive and investment would not be made to provide service.

Change in historic industry practice must come, however, if universal service is to survive. One unavoidable fact is that incumbent telephone companies must be allowed to compete for the few customers they have that will be attractive to a competitor. The second fact is that by doing so, prices will necessarily rise for the average customer for whom competitive alternatives will not be likely. The proponents of unrestrained local competition hope to ignore this reality until it can be blamed on someone else. But like the fact that in small towns, air transportation costs more for lower quality service, telephone service will necessarily follow a similar path if the results are determined solely by the "market".

In a recent speech, Chairman Reed Hundt stated what he saw as the FCC's twin mission: private competition in communications, public benefit from communications. He went on to say that the Commission should "represent the public interest where competition won't deliver all the socially desirable benefits of the communications revolution." The State of Arizona similarly should recognize that rural telephone service will not continue to be universally available if the result is left solely to the market.

The Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO)

OPASTCO firmly believes in the universal service concept. OPASTCO believes that the goals and definition of universal service are constantly evolving. Obviously, communications services today are different than those in 1934. In the information age, this concept is even more important. Universal service should include access to advanced telecommunications services beyond simple voice grade standards. A seamless, modern information infrastructure, in urban and rural areas is crucial to universal service.

Policy makers have also stressed that the telecommunications infrastructure must be deployed in such a way that it avoids the creation of information "haves" and "have nots." OPASTCO believes this is entirely consistent with the definition of universal service. As advances in technology and burgeoning competition change the telecommunications marketplace, the concept of universal service must be strengthened and constantly evolving if the vision of a truly ubiquitous network is to be realized.

Today, almost 94 percent of U.S. households have telephone service. This high penetration rate is made possible by several different state and federal programs and policies that keep telephone rates reasonable, regardless of household income or geographical location. The recent .4 percent drop in subscribership demonstrates the need and difficulty of attaining even adequate penetration, let alone the provision of universal service. Any changes to the current USF mechanisms could have the potential of jeopardizing universal service goals.

The current USF mechanisms allow high cost, rural networks to be built, enabling new subscribers to connect to the vital network. The Universal Service Fund helps telephone companies serve high-cost areas by allocating a portion of these costs to the interstate jurisdiction. Costs are higher in rural areas than in urban and suburban areas because telephone companies have to install more physical plant, covering greater distances, in order to reach fewer people. Therefore, the per subscriber cost can be much higher. Because rural markets contain fewer large customers, such as businesses, the loss of a small number of those customers to a competitive provider will increase the rates for the remaining users. Accordingly, USF support should only flow to the provider that has the obligation to serve all customers, not just the most profitable ones.

OPASTCO has long supported the Lifeline and LinkUp America programs that enable low-income subscribers to connect to the network. Lifeline is a program through which qualified low-income subscribers can have their $3.50 a month subscriber line charge (SLC) waived. LinkUp America allows low-income customers to receive a reduced installation charge, facilitating network access and increasing penetration. These two programs work in tandem with the USF. While the USF helps extend service in rural areas and construct the network, Lifeline and LinkUp America give low-income subscribers the means to connect.

OPASTCO believes that these mechanisms are vitally important to not only the direct recipients, but also the nation as a whole. Each new subscriber added to the network adds to the value of the network by expanding the number of U.S. citizens, businesses, and educational and governmental institutions that can be reached by every other telephone subscriber. It is essential that telecommunications legislation or FCC decisions continue to support universal service for all Americans, including those in rural America, so they are guaranteed access to quality, advanced telecommunications services at reasonable rates. The United States has the most advanced and extensive telecommunications network in the world today due to this commitment to universal service. The USF is an integral part of this success.